

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /104 W
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FM AMEMBASSY QUITO
TO SECSTATE WASHDC 5314

C O N F I D E N T I A L QUITO 5246

E.O. 11652: GDS
TAGS: ENRG EINV EC
SUBJ: TEXACO'S RESUMED NEGOTIATIONS WITH GOE SEEM OFF TO A GOOD
START

1. SUMMARY: LOCAL TEXACO MANAGER MIKE MARTINEZ INFORMED EC COUNSELOR
AUGUST 3 THAT TEXACO'S NEGOTIATIONS WITH GOE, WHICH RESUMED
IN JUNE SHORTLY AFTER THE GOE HAD FINALLY SIGNED ITS BUY-OUT
AGREEMENT WITH GULF, HAVE GOTTEN OFF TO A GOOD START. END SUMMARY.

2. MARTINEZ SAID THAT THE DISCUSSIONS INITIALLY HAD BEEN WITH
THE SUB-SECRETARIES OF FINANCE AND NATURAL RESOURCES, WHO
GAVE EVERY SIGN OF BEING WILLING TO TRY TO ACCOMMODATE
TEXACO'S REQUESTS TO INSURE THAT THE US COMPANY STAYS ON AND
STEPS UP ITS INVESTMENT IN ECUADOR. AFTER THE RESIGNATION
OF THE SUB-SECRETARY OF NATURAL RESOURCES (PARODI), HIS REPLACE-
MENT (ACOSTA) PROVED UNFAMILIAR WITH THE ISSUES UNDER
DISCUSSION, AND BEGAN TO BRING IN "HORDES" OF ADVISORS,
WHICH MADE THE MEETINGS UNWIELDY AND UNPRODUCTIVE. IN JULY,
BY MUTUAL ACCORD, THE MEETINGS WERE RAISED TO THE MINISTERIAL
LEVEL. MARTINEZ SAID THAT BOTH NATURAL RESOURCES MINISTER
GEN.SEMBLANTES AND FINANCE MINISTER SEVILLA EVINCED
VERY SYMPATHETIC ATTITUDES, AND PLAINLY REAFFIRMED THEIR
DESIRE TO TRY TO EFFECT CHANGES IN EXISTING LAWS AND
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REGULATIONS SO THAT TEXACO COULD EARN A REASONABLE RETURN
ON ITS INVESTMENT AND BE ENABLED TO STEP UP ITS INVEST-
MENT HERE.

3. THE MINISTERIAL MEETINGS CULMINATED IN A DECISION TO
SET UP JOINT TECHNICAL WORKING GROUPS, EACH TO REVIEW A
PARTICULAR ISSUE. THESE WERE CONSTITUTED PROMPTLY IN

JULY, AND HAVE BEEN REVIEWING MAINLY THE FOLLOWING MATTERS: (A) DECREE 285; (B) TEXACO'S REQUEST FOR A LIFTING AGREEMENT, WHICH WOULD PERMIT EITHER PARTY TO EXPORT ANY QUANTITIES BELONGING TO THE OTHER PARTY THAT THE LATTER IS UNABLE TO SELL; (C) PRODUCTION LEVELS, WELL BY WELL; AND (D) A DETAILED WORK PROGRAM FOR THE TEXACO-CEPE CONSORTIUM FOR THE PRODUCTION YEAR WHICH IS TO BEGIN ON EITHER SEPTEMBER 1 OR OCTOBER 1. ONE OF THE MOST IMPORTANT TOPICS, THAT OF TEXACO'S FUTURE INVESTMENTS, SO FAR HAS NOT BEEN DISCUSSED SUBSTANTIVELY BUT TEXACO IS CURRENTLY WORKING UP A REVISED AND DETAILED PROPOSAL.

4. FINANCE MINISTER SEVILLA IS CURRENTLY OUT OF ECUADOR. TEXACO EXPECTS THAT, UPON HIS RETURN, MEETINGS WILL PROMPTLY BE SCHEDULED WITH HIM AND WITH MINISTER SEMBLANTES. THE HOPE IS THAT BY THE TIME THESE MEETINGS ARE HELD, IN MID AUGUST, THE TECHNICAL WORKING GROUPS WILL HAVE PRODUCED SOME RECOMMENDATIONS FOR THE MINISTERS' CONSIDERATION.

5. REGARDING DECREE 285, MARTINEZ TOLD THE EC COUNSELOR THAT TEXACO DOES NOT VIEW ITSELF AS BOUND BY THE AGREEMENT THE GOE REACHED WITH GULF SETTling GULF'S OBLIGATIONS UNDER THE DECREE, BECAUSE PRIOR TO THE GULF-GOE SETTLEMENT, TEXACO HAD REACHED A MORE FAVORABLE (ALBEIT MERELY CONFIDENTIAL

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ORAL) SETTLEMENT FOR ITSELF WITH THEN- MINISTER VARGAS. MARTINEZ SAID THAT THE ABSENCE OF A LIFTING AGREEMENT HAS MADE IT NECESSARY FOR TEXACO, IN THE FACE OF SHARPLY REDUCED PRODUCTION BY THE CONSORTIUM (ATTRIBUTABLE IN TURN TO CEPE'S INABILITY TO EXPORT MUCH AT ITS CURRENT HIGH PRICE), TO BORROW CRUDE FROM CEP'S UNSOLD SHARE IN ORDER TO FILL TEXACO'S SOLD HSARE. TEXACO HAS THUS BEEN ACCURING A LARGE DEBT TO CEPE THROUGH NO FAULT WHATSOEVER ON TEXACO'S PART. MARTINEZ SAID TEXACO WILL PROPOSE THAT THIS DEBT BE APPLIED AGAINST WHATEVER AMOUNT TEXACO EVENTUALLY IS DEEMED TO OWE TO CEPE UNDER DECREE 285.

6. MARTINEZ COMMENTED THAT CEPE AND THE GOE HAVE ONCE AGAIN BOXED THEMSELVES IN A CORNER FROM WHICH THEY FIND IT POLITICALLY DIFFICULT TO RETREAT. THIS TIME THEY HAVE DONE IT BY FIXING AN OVERLY HIGH PRICE FOR CEPE'S CRUDE OIL EXPORTS. MARTINEZ SAID CEPE COULD SELL WITHOUT DIFFICULTY IF IT WOULD LOWER ITS \$13-PER-BARRLE PRICE BY JUST 20 CENTS OR SO. HE STRESSED THAT THE ADVERSE POLITICAL CONSEQUENCES RESULTING FROM SUCH A PRICE DROP WOULD BE FAR LESS ADVERSE FOR THE GOE AND

CEPE THEN WOULD PUBLIC KNOWLEDGE OF THE FACTS THAT CEPE
CURRENTLY IS NOT LIFTING AT ALL ("IMAGINE WHAT THE
ECUADOREANS WOULD BE SAYING IF IT WERE TEXACO THAT WAS
NOT LIFTING"), AND THAT PRODUCTION FOR THE PAST SEVERAL
MONTHS HAS BEEN ABYSMALLY LOW BECAUSE OF CEPE'S MARKETING
DIFFICULTIES.
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